

Message Text

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FOR USDA PASS FAS FROM AGATT

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SUBJECT: REACTION TO CHANGES IN EXPORT DUTIES ON COFFEE, PEANUTS,
AND SPECIFIED JUTE GOODS

REF: NEW DELHI 2333

1. REACTIONS HAVE BEEN PREDICTABLY MIXED TO THE CHANGES REPORTED IN REFTEL. WITHIN THE JUTE INDUSTRY, THE ACTION, THOUGH WELCOME, HAS GENERATED CONFUSION OVER THE EXCLUSION OF JUTE TARPAULIN AND CANVAS. IT HAS BEEN ALLEGED THAT ONCE THE EXPORT DUTY WAS REMOVED ON HESSIAN (MAY AND JUNE 1975), SIMILAR DUTIES ON CANVAS, TARPAULIN, AND WEBBING - ALL BASICALLY HESSIAN CONSTRUCTIONS - WERE COUNTERPRODUCTIVE. INDUSTRY CRITICISM WAS ALSO LEVELED AT THE ABSENCE OF MY REAL BENEFIT THAT IS LIKELY TO FOLLOW THE RECENTLY ANNOUNCED DUTY REDUCTIONS ON JUTE SACKING, WEBBING, YARN, AND TWINE EXPORTS; I.E. IN VIEW OF THE FACT THAT THESE REDUCTIONS AMOUT TO ONLY 5 PERCENT AND INDIAN JUTE PRODUCTS STILL MUST CONTEND WITH BANGLADESH EXPORT QUOTATIONS THAT ARE BEING DISCOUNTED BY AS MUCH AS 20 PERCENT. THE ACTION STILL LEAVES INDIAN JUTE MILLS AS RESIDUAL SELLERS IN INTERNATIONAL MARKETS AND THE INDUSTRY CONTENTS THEY ARE UNLIKELY TO BREAK OUT OF THEIR CURRENT CRISIS IN THE ABSENCE OF CASH SUBSIDIES ON JUTE GOODS EXPORTS (ESPECIALLY HESSIAN) AND/OR OFFICIAL SANCTION FOR THE PROPOSED REGULATION OF MILL OUTPUT

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TO PROPERLY ADJUST SUPPLY AND DEMAND. IN THE WAKE OF THIS LATEST

ACTION, THE JUTE INDUSTRY NOW LOOKS FOR ADDITIONAL RELIEF TO THE ANNOUNCEMENT EXPECTED NEXT MONTH CONCERNING THE CENTRAL BUDGET. ASSISTANCE ON THE INTERNATIONAL FRONT IS CONSIDERED ESSENTIAL, IN VIEW OF TWO FACTORS CURRENTLY DEEMED TO BE EFFECTIVELY PROHIBITING ANY IMPROVEMENT IN DOMESTIC DEMAND: THE IMPACT OF AN EXCISE DUTY OF RS. 60 PER TON (DOL1 EQ RS. 8.80) AND THE STATUTORY OBLIGATION THAT REQUIRES THE CEMENT INDUSTRY TO PACK AS MUCH AS FIVE PERCENT OF ITS PRODUCT IN SECONDHAND GUNNY BAGS. THE FORMER REPORTEDLY EARNS THE GOVERNMENT SOME RS. 360 MILLION A YEAR, BUT RESULTS IN AN 18 PERCENT RETAIL MARK-UP FOR THE CONSUMER. AS A CONSEQUENCE, COST CONSIDERATIONS FORCE THE CONSUMER TO USE OLD GUNNY BAGS IN PREFERENCE FOR NEW AND EXACERBATE THE PENETRATION OF THE INDIAN DOMESTIC MARKET BY HDPE BAGS (HIGH DENSITY POLYETHYLENE), PARTICULARLY IN THE AREA OF FERTILIZERS AND CHEMICALS.

2. CONCERN AMONG GROWERS OVER THE ACTION TAKEN WITH RESPECT TO THE DUTY ON COFFEE EXPORTS (A SIX-FOLD INCREASE TO RS. 3,000/MT) HAS BEEN PARTLY MUTED BY THE REALIZATION THAT INDIAN EXPORTS ARE NOT LIKELY TO SUFFER IN VIEW OF THE LIKELY IMBALANCE IN SUPPLY AND DEMAND OVER THE NEXT YEAR OR TWO. BITTERNESS OVER THE INCREASE WAS PRIMARILY BASED ON THE VIEW THAT INCREASED PROFITS DURING THE LATTER HALF OF FY 1975 ONLY MADE UP FOR DISTRESS SALES AND PROFIT LOSSES EXPERIENCED EARLIER IN THE YEAR, WHEN SEVERAL PRODUCING COUNTRIES WERE ALLEGED TO HAVE DUMPED SUPPLIES ON INTERNATIONAL MARKETS. ANOTHER ASPECT OF THE GROWERS' DISTRESS INVOLVED WHAT WAS CHARACTERIZED AS AN ACROSS-THE-BOARD DUTY HIKE IN THE FACE OF UNEVEN RISES IN THE PRICE OF COFFEE. TWO VARIETIES WHOSE PRICE INCREASES HAVE BEEN RATHER MARKED ARE PLANTATION "A" COFFEE (TO RS. 930 PER 50 KG. IN MID-FEBRUARY 1976 FROM RS. 440 LAST JULY) AND ROBUSTA (TO RS. 750 FROM RS. 320).

3. IN A BROADER CONTEXT, RECENT COFFEE SUPPLY AND PRICE DEVELOPMENTS HAVE BEEN VIEWED AS AN OBSTRUCTION TO ANY IMMEDIATE MOVEMENT TOWARDS AN INTERNATIONAL BUFFER STOCK ARRANGEMENT. IN AN INDIAN CONTEXT, THE ATTITUDE APPEARS TO VIEW AS TEMPORARILY MUTE INDIA'S CONTRIBUTION OF 25 PERCENT OF ITS EXPORTABLE QUOTA TOWARDS THE ENVISIONED 20 MILLION MT STOCKPILE.

4. FINALLY, MOST OBSERVERS VIEW THE DECISION TO RAISE THE EXPORT DUTY ON PEANUTS (KERNEL AND IN-SHELL) AS BELATED RECOGNITION OF A UNCLASSIFIED

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MARKET SITUATION WHERE EXPORTERS HAVE LONG ENJOYED A SELLER'S MARKET ABROAD AND A BUYER'S MARKET AT HOME. ALTHOUGH SOME EXPORTERS WERE UNDERSTANDABLY UPSET BY THE DECISION, MOST TRADITIONAL SHIPPERS VIEW THE INCREASE WITH EQUANIMITY, AT LEAST IN THE SHORT RUN; I.E. SINCE THE AMOUNT TO BE ABSORBED BY THE GOVERNMENT STILL LEAVES A RESPECTABLE AMOUNT OF PROFIT. SHOULD FUTURE INTERNATIONAL PRICES NOT ALLOW EXPORTERS TO BEAR THE INCREASED DUTY, THIS SUPPORT COULD WANE. ANY SERIOUS CHANCE OF THIS OCCURRING COULD CONCEIVABLY

BE ALLEVIATED BY BEARISH TENDENCIES LIKELY TO INFLUENCE DOMESTIC MARKET PRICES OVER THE NEXT SEVERAL MONTHS: (1) A FALTERING PRICE SUPPORT SCHEME IN THE MAJOR PRODUCING STATE OF GUJARAT (THE PRESSURE OF PEANT SUPPLIES HAS BEEN HEAVY ENOUGH TO MAKE IT IMPOSSIBLE FOR THE COOPERATIVE MARKETING FEDERATION TO ABSORB ALL QUANTITIES OFFERED, THEREBY FORCING GROWERS TO SELL TO TRADERS OR OIL MILLERS WHO ARE UNDER NO OBLIGATION TO PAY THE SUPPORT PRICE OF RS. 150/ QUINTAL);

(2) A PAUCITY OF FUNDS TO SUPPORT THE SCHEME EVEN IF MARKET CONDITIONS WERE MORE TRACTABLE; (3) THE PROXIMITY OF THE MARKETING SEASON FOR KARDI AND NIGERSEED; (4) A SUMMER GROUNDNUT CROP EXPECTED TO EXCEED LAST SUMMER'S CROP (720,000 MT) BY OVER 50 PERCENT; AND (5) A RABI OILSEED CROP, LIKE MUSTARDSEED, THAT WILL BE LARGE ENOUGH TO FURTHER DEPRESS DOMESTIC PRICES. FINALLY, A CONTINUATION OF THE RS. 100 PER MT CURRENTLY BEING LEVIED ON EXPORTS BY THE INDIAN OIL AND PRODUCERS' EXPORT ASSOCIATION (IOPEA) WILL DEPEND ON THE PLAY IN DOMESTIC AND INTERNATIONAL PRICES OVER THE NEXT SEVERAL MONTHS. THIS LEVY, WHICH IS AIMED AT PROVIDING THIS CANALIZING BODY WITH EXPORT MARKET DEVELOPMENT FUNDS, WOULD BECOME UNTENABLE IF INTERNATIONAL PRICES FELL TO A POINT AT WHICH EXPORTERS COULD NOT PROFITABLY ABSORB THE SUM AND IN THE ABSENCE OF A FLOOR PRICE REMUNERATIVE ENOUGH TO ENABLE THE IOPEA TO FULLY EXPLOIT THE EXISTING EXPORT POTENTIAL.SAXBE

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